

MINUTES OF MEETING
of the
FEDERAL ADVISORY COUNCIL

November 19, 1926

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The last regular statutory meeting of 1926 of the Federal Advisory Council was held in the Federal Reserve Board room, Treasury Building, Washington, D. C., Friday, November 19, 1926.

The Acting President, Mr. C. A. Morss, called the meeting to order at 10 A. M.

Present:

Mr. C. A. Morss	District No. 1
Mr. James S. Alexander	District No. 2
Mr. L. L. Rue	District No. 3
Mr. J. F. Bruton	District No. 5
Mr. P. D. Houston	District No. 6
Mr. M. A. Taylor (Alternate for Mr. F. O. Wetmore)	District No. 7
Mr. Breckinridge Jones	District No. 8
Mr. Theodore Wold	District No. 9
Mr. P. W. Goebel	District No. 10
Mr. B. L. Gill, Sr. (Alternate for Mr. B. A. McKinney)	District No. 11
Mr. H. S. McKee	District No. 12
Mr. Walter Lichtenstein	Secretary

Absent:

Mr. G. A. Coulton	District No. 5
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Mr. Morss stated that Mr. Coulton had fainted while visiting the Treasury the day before and had fallen down a flight of stairs, seriously injuring himself. The latest reports, however, were distinctly favorable, and it was expected that Mr. Coulton would recover from his accident in a short time. The Council expressed its regrets that Mr. Coulton should have met with an accident and therefore be unable to be present at this session of the Council.

At 10:10 the Council adjourned to convene in joint session with the Federal Reserve Board.

WALTER LICHTENSTEIN,
Secretary.

MINUTES OF JOINT CONFERENCE OF THE FEDERAL ADVISORY
COUNCIL AND THE FEDERAL RESERVE BOARD

November 19, 1926.

At 10:15 A. M. a joint conference of the Federal Advisory Council and the Federal Reserve Board was held in the Federal Reserve Board room.

Present: Members of the Federal Reserve Board:

Governor D. R. Crissinger, Vice-Governor Edmund Platt, Messrs. C. S. Hamlin, A. C. Miller, E. H. Cunningham; also Mr. Walter L. Eddy, Secretary; Mr. J. C. Noell, Assistant Secretary, and Mr. E. A. Goldenweiser, Acting Director of the Division of Research and Statistics.

Present: Members of the Federal Advisory Council:

Mr. C. A. Morss, Acting President; Messrs. James S. Alexander, L. L. Rue, J. F. Bruton, P. D. Houston, M. A. Traylor, Breckinridge Jones, Theodore Wold, P. W. Goebel, B. L. Gill, Sr., H. S. McKee, and Walter Lichtenstein, Secretary.

Mr. Goldenweiser, by means of charts, illustrated the trends of finance and business.

Discussion took place about the various topics concerning which the Council had been requested to make recommendations. In regard to open market policies it was stated by the Federal Reserve Board that the present investments amounted to approximately \$200,000,000, and that the Committee on Open Market Operations had made no recommendation for any change, though it was understood that the Committee, if it seemed advisable, might recommend the purchase of \$100,000,000 more of securities before January 1, and that such a request would probably be allowed by the Board.

It was stated that the Board has no power to issue a ruling in regard to non-cash items, but that under the law this question must be left to the discretion of each Federal Reserve bank.

Meeting adjourned at 12:20 P. M.

WALTER LICHTENSTEIN,
Secretary.

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

November 19, 1926.

At 12:25 P. M. the Federal Advisory Council reconvened to continue its discussion.

Present: Mr. C. A. Morss, Acting President; Messrs. James S. Alexander, L. L. Rue, J. F. Bruton, P. D. Houston, M. A. Traylor, Breckinridge Jones, Theodore Wold, P. W. Goebel, B. L. Gill, Sr., H. S. McKee, and Walter Lichtenstein, Secretary.

Mr. Walter Wyatt, General Counsel for the Board, appeared before the Council and explained in greater detail than had been done, that under a decision of the United States Supreme Court the Federal Reserve Board had no power to compel the Federal Reserve banks to collect non-cash items. It was therefore decided that the topic about non-cash items be stricken from the list and that no record be made of it.

Meeting adjourned at 1 P. M.

WALTER LICHTENSTEIN,
Secretary.

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

November 19, 1926.

At 2 P. M. the Federal Advisory Council reconvened.

Present: Mr. C. A. Morss, Acting President; Messrs. James S. Alexander, L. L. Rue, J. F. Bruton, P. D. Houston, M. A. Traylor, Breckinridge Jones, Theodore Wold, P. W. Goebel, B. L. Gill, Sr., H. S. McKee, and Walter Lichtenstein, Secretary.

The topics (Nos. 1-5 inclusive, attached hereto and made a part of these minutes) were discussed and recommendations formulated which, on motion duly seconded, were unanimously approved for presentation to the Federal Reserve Board.

Mr. Walter Wyatt, General Counsel for the Board, again appeared before the Council in order to explain to the Federal Advisory Council the memorandum referred to under topic 5.

Meeting adjourned at 3:45 P. M.

WALTER LICHTENSTEIN,
Secretary.

MINUTES OF JOINT MEETING OF THE FEDERAL ADVISORY
COUNCIL AND THE FEDERAL RESERVE BOARD

November 19, 1926.

At 3:50 P. M. a joint meeting of the Federal Advisory Council and the Federal Reserve Board was held in the Federal Reserve Board room.

Present: Members of the Federal Reserve Board:

Governor D. R. Crissinger, Vice-Governor Edmund Platt, Messrs. C. S. Hamlin, A. C. Miller; also Mr. Walter Wyatt, General Counsel for the Board, Mr. Walter L. Eddy, Secretary, and Mr. E. A. Goldenweiser, Acting Director of the Division of Research and Statistics.

Present: Members of the Federal Advisory Council:

Mr. C. A. Morss, Acting President; Messrs. James S. Alexander, P. D. Houston, M. A. Taylor, Breckinridge Jones, Theodore Wold, P. W. Goebel, B. L. Gill, Sr., H. S. McKee, and Walter Lichtenstein, Secretary.

The Acting President of the Council presented to the Board the Recommendations of the Council which had been prepared (Recommendations Nos. 1-5, attached hereto and made a part of these minutes).

Mr. Alexander gave an interesting account of his recent European trip and read a paper which had been presented by him at a meeting in Rome, showing why, in his opinion, the United States would be able to receive debt payments from her former allies without detriment to herself.

Upon the request of the Federal Reserve Board the various members of the Federal Advisory Council present reported about business conditions in their respective districts.

Meeting adjourned at 6 P. M.

WALTER LICHTENSTEIN,
Secretary.

RECOMMENDATIONS OF THE FEDERAL ADVISORY COUNCIL TO THE
FEDERAL RESERVE BOARD

September 17, 1926.

TOPIC No. 1. What change, if any, should be made in regard to the present agencies of Federal Reserve banks established in Cuba?

RECOMMENDATION: The Federal Advisory Council voted that in its opinion there should only be one agency in Cuba, the Federal Reserve Bank which is to maintain this agency to be selected with due regard to the operation and movement of commerce and trade.

TOPIC No. 2. Interpretation of regulations regarding eligibility of paper presented to Federal Reserve banks for rediscount.

RECOMMENDATION: The Federal Advisory Council understands that the interpretation of the eligibility regulations for paper to be rediscounted has been referred by the Federal Reserve Board to the Governors with a view that they may suggest simplification of the regulations so that the paper of companies having one or more subsidiaries may be made eligible for rediscount without at the same time making paper of finance companies eligible for rediscount and otherwise violating the true intent and spirit of the Federal Reserve Act.

Attention has also been called to the Federal Advisory Council that the various Federal Reserve banks have different practices and requirements as to the form and character of the statements to be filed by companies. The Federal Advisory Council believes that the requirements and statements should be standardized and that companies having one or more subsidiaries should be required to file with their banks of deposit a consolidated statement and detailed statements of all their subsidiaries.

TOPIC No. 3. At present a tax of 13½ per cent is imposed upon the discount received by any foreign corporation from American bankers acceptances.

RECOMMENDATION: The tax of 13½ per cent imposed upon the discount received by any foreign corporation from American bankers acceptances restricts the market for American bankers acceptances. The Federal Advisory Council requests the Federal Reserve Board to use its good offices to have the law and/or regulations of the present income tax law amended so that the income derived from American bankers acceptances by foreign holders may not be subjected to an income tax.

TOPIC No. 4. Should the Federal Reserve Board continue its present policy of reducing reserve requirements on demand deposits from 10 per cent to 7 per cent in the case of outlying banks in large cities?

RECOMMENDATION: The Federal Advisory Council requests its members to make a careful investigation of this subject and report at the next meeting.

RECOMMENDATION OF THE FEDERAL ADVISORY
COUNCIL TO THE FEDERAL RESERVE BOARD

November 19, 1926

TOPIC NO. 1.—Rediscount and open market policies of the Federal Reserve Board.

Recommendation:—

The Federal Advisory Council concurs in the attitude of the Federal Reserve Board that the present status quo of rediscount rates be maintained, and the open market policy as explained by the Federal Reserve Board is approved.

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TOPIC NO. 2.—The McFadden bill.

Recommendation:—

The Federal Advisory Council wishes to reiterate at this time its recommendation of February 16, 1925 in respect to the McFadden bill, which reads as follows:

"At the request of the Federal Reserve Board the Executive Committee of the Federal Advisory Council has reviewed the terms of the McFadden bill, H.R. 8887. While it is not practicable for the Committee to review the more technical aspects of the bill or to give its opinion upon the more detailed amendments of the various sections of the National Bank Act or other Federal statutes, nevertheless, as previously reported to the Federal Reserve Board, it is in favor of its main purpose.

"For some time it has been apparent that more liberal provision must be made by Congress for national banking associations, because of the fact that in certain sections of the country national banks are considerably handicapped in competing with state institutions. This is more particularly true now that Section 9 of the Federal Reserve Act provides that a state institution may become a member bank and retain its full charter and statutory rights as a state bank and trust company and may continue to exercise all corporate powers granted it by the state in which it was created, and shall be entitled to all privileges of member banks."

"The Executive Committee of the Federal Advisory Council, therefore, believes that so far as the McFadden bill is designed to protect the national banking system and to safeguard Federal Reserve membership, it is desirable legislation and should be enacted into law.

"There is one feature of the bill, however, which the Executive Committee of the Federal Advisory Council does not believe it should let pass without explicit comment and which in its opinion may ultimately work a gross hardship on some national banks and perhaps seriously affect both state and national membership in the Federal Reserve System. It is the so-called Hull amendment. Without dis-

cussing the details of those sections of the bill designed to authorize the establishment of branch banks, the Hull amendment makes it impossible in the future for any national bank located in a state which does not now authorize branch banking to open branch banks even if at a later date the state legislature should decide to permit state institutions to do a branch bank business. Furthermore, that amendment also provides that any state bank or trust company in such a state which is now a member of the Federal Reserve System must withdraw from the System if it should decide to do a branch banking business under the terms of a subsequent state law permitting branch banking after the enactment of the McFadden bill. In the opinion of the Council, there is no reason in fairness or in logic for the Federal Congress to authorize national banks to open branches in those states which now authorize state institutions to do a branch banking business and to deny that same right in the future to national banks which may happen to be located in a state which now prohibits branch banking but which may subsequently authorize it."

The Federal Advisory Council authorizes its Executive Committee to memorialize either or both Houses of Congress to eliminate the Hull amendment from the McFadden bill.

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TOPIC NO. 3.—Does the Federal Advisory Council recommend that the practice of reducing reserves required from outlying banks in central reserve and reserve cities be continued?

Recommendation:—

The Federal Advisory Council in general does not approve of the practice of reducing the reserves required from outlying banks in central reserve and reserve cities. The Council, however, realizes that exceptions have been made, and before reaching any final decision the Council requests the Federal Reserve Board to furnish it with such data and recommendations as may have been made as a result of investigations of this question.

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TOPIC NO. 4.—Should the Federal Reserve Board release for publication the consolidated statement of condition of reporting member banks in the two central reserve cities before getting out the statement for the whole country?

Recommendation:—

The Federal Advisory Council believes it is inadvisable to publish only a part of the statement of condition of reporting member banks, as this may at times lead to false impressions as to the economic and financial conditions of the country.

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TOPIC NO. 5.—The view of the Federal Advisory Council is desired in respect to the suggestion made to the Federal Reserve Board that the use of domestic bankers acceptances be broadened, especially in two respects:

1. To permit the *purchaser* of goods under bankers acceptance credits to draw bills having a maturity consistent with the usual and customary credit time that obtains in the relative trade, instead of requiring the *shipper* to draw the bill if it has a maturity in excess of the actual transit time of the goods; and
2. To permit the use of bankers acceptances secured by "independent converter's receipts" covering readily marketable staples to finance the carrying of certain staples during the time they are being converted into other forms of staples through a converter independent of the drawer, provided that the identity of the goods is not lost and the accepting bank remains secured by the independent converter's receipt.

Recommendation:—

The Federal Advisory Council requests the Federal Reserve Board to supply to each member of the Council the full report of the Committee which investigated the question submitted by the Federal Reserve Board. The members of the Federal Advisory Council will then be in a position to formulate some opinion at the next meeting of the Council.